Uruguay Debt Report

A quarterly report issued by the Debt Management Unit — July 2014

Executive

Uruguay successfully concluded the issuance of a new 2050 dollar global bond which was executed concurrently with an intraday liability management transaction in the international market. The final new issue size was USD 2billion, of which USD0.8 billion was new cash and USD1.2 billion resulted from the liability management exercise.

On June 10th, 2014, the Republic swept into the global bond market and issued a USD 2050 global bond, a new long end benchmark in the Sovereign´s USD curve. Concurrently the Government executed a one day "Switch Tender offer" targeting seven of its outstanding USD global securities due to expire in 2015, 2017, 2022, 2025, 2033, 2036 and 2045. Holders of those bonds could receive either the new USD 2050 global bond ("Preferred tenders") or cash ("Non preferred tenders").

The main objective of the transaction was to establish a new large and liquid benchmark bond in the long end sovereign's USD curve. Also, switching mid-section and the long end maturities issuances of the Republic to the new bond contributes to extend the average time to maturity of the debt portfolio and consolidate the issuance of the new benchmark. Additionally, the new cash component seeks to strengthen the Government pre funding policy and reinforces its liquidity position as part of its pre funding policy in a favorable interest rate environment with historic low rates in the US.

As a result of the transaction, the Republic issued a USD2 billion total sized bond with final maturity in 2050 that will be paid back in three equal installments. The new bond was priced to yield 5.121%, which represents an issuance price of 99.66%, and has a coupon of 5.10%. The new bond was initially launched with a spread of 170 bps area ("T+170 bps") over the benchmark US treasury. Around mid-morning, official price guidance was set at "T+165-170 bps (will price in range)", with the deal finally priced at T+165 bps, the low end of the guidance range. It is worth noting that the new bond was priced with a new issue concession of only around 10 bps.

It is important to highlight that the new bond, with a 35 year average life, is the Republic´s longest date bond and with this deal Uruguay was placed among a group of select EM sovereigns that has accessed the "ultra long" section of the USD curve, with more than 30 years. The deal was also very significant because of its size; the amount of the new bond issuances, USD2 billion, allows being included in the international references indexes for high quality investors.

It must be noted that with this transaction the Republic efficiently took advantage of the benefits of the performance of its dollar yield curve in the recent months. Given the relative flatness of the curve, the government was able to issue in the long part of the USD curve with hardly any additional cost for the curve extension. Also, the credit pick up between a 10 year vs a 30 year issuances was at 30 bps, the lowest differential in Latam, with Colombia, Peru and Mexico trading at +40-42 bps, and Brazil around +55 bps.

The total demand for the new bond was around USD3 billion, comprised of high quality orders in a well-diversified investor base: 64% from North America, 28% from Europe, 7% from Latam and 15% from Asia and Middle East. The deal finally resulted in a combination of USD0.8 billion of new cash and USD1.2 billion of switch tender orders (around USD 900 million in nominal value).

It is also noteworthy that the transaction was executed without prior marketing, reflecting the degree of knowledge, monitoring and comfort that investors have with Uruguayan credit. Furthermore, this transaction was the first deal launched after Moody´s upgraded Uruguay´s credit rating in May to Baa2, the highest rating in the history of the Republic.

This deal has a strong impact in terms of Uruguay´s debt portfolio risk profile. The transaction permitted the Central Government to increase the average time to maturity of the debt reaching 15 years as of the end of June 2014 after this deal, among a shrinking group of sovereigns with debt maturities in excess of 10 years. Also, the long date bond new issuance in conjunction with the liability management exercise, allowed smoothing further the amortization debt profile. In addition, the deal represents a reduction in terms of interest of around USD 6 million per year. After the transaction the liquid assets held by the government stood at around 5.4% of GDP, enough to cover around 15 months of debt services.

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	IV.2012 (*)	IV.2013 (*)	I.2014 (*)	II.2014 (*)
Roll Over Risk												
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	10,8	13,5	15,0
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%	3,3%	2,2%	2,5%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	3,6	8,3	5,8	7,3	5,9 (3)
Liquid Assets CG/Amortization Payments due in one year	0,3	0,3	0,4	0,7	1,6	1,4	0,7	4,0	3,7	2,7	3,1	3,1 (4)
Interest Rate Risk												
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	7%	8%	6%	6%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,3	10,4	12,9	14,4
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,8	8,8	11,6	11,7
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	95%	95%	93%	94%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	5%	5%	7%	6%
Foreign Currency Risk												
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	55%	54%	55%	52%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	45%	46%	45%	48%
Debt Composition by Instrument												
Loans	44%	40%	18%	17%	19%	21%	19%	15%	13%	10%	10%	10%
Bonds	56%	60%	82%	83%	81%	79%	81%	85%	87%	90%	90%	90%
Debt Composition by Jurisdiction												
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	30%	29%	31%	29%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	70%	71%	69%	71%
Average interest rate (annual % by currency)												
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6	5,6	5,3
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9	5,9	5,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9	1,9
Units Linked to CPI (UI)	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,0	4,0	4,0	4,0
Units Linked to Average Wage Index (UR)											2,3	2,3
Uruguayan Pesos								10,6	9,7	9,6	9,8	9,6

(*) Preliminary Data

(1) Average time to Maturity

(2) Average time to Refix

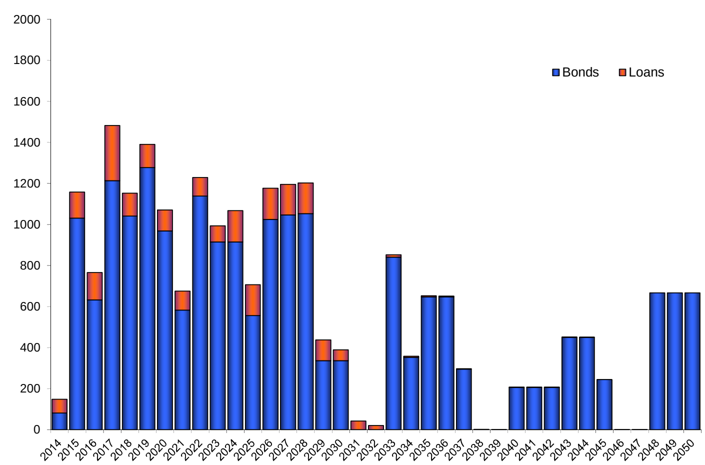
(3) 12 month period ended May 2014

(4) Amortizations of the next 12 months starting in July 2014

Central Government Debt Profile

As of June 2014

USD Million



Central Government Flow of Funds

USD Million

	2012	2013(*)	2014(*)
USES	**2689**	**3947**	**3232**
Interests Payments	1163	1326	1243
Amortizations	1227	1842	1679
Loans	186	635(1)	119
Bonds	1041	1207	1560(3)
Others	299	779 (2)	310
SOURCES	**2689**	**3947**	**3232**
Primary Surplus	195	522	185 (4)
Multilaterals Disbursements	186	61	144
Issuances	2436	2587	3215
Others	92	192	261
Use of Assets**	-219	585	-573

(*) Preliminary Data

(1) Includes IADB Prepayment for USD 519 million in January 2013

(2) Includes Loan from the Executive to ANCAP for USD 517 million in January 2013 to prepay debt with PDVSA

(3) Includes treasury notes and bonds early redemption as a result of exchange with Banco de Seguros (03/2014) plus repurchase of USD Global Bonds at LM exercise (06/2014)

(4) Source: Macroeconomic and Financial Advisory Unit Preliminary Estimate

** Positive indicates a reduction in reserves

Source: Debt Management Unit

DEBT MANAGEMENT UNIT
CONTACT INFORMATION

☎ +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Web site: deuda.mef.gub.uy

Azucena Arbeleche, Director

Victoria Buscio

Rodrigo González

Antonio Juambeltz

Rodrigo Saráchaga

Juan Siutto